

## Message Text

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APPROVED BY USOAS - JOHN W. FORD

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FM SECSTATE WASHDC

TO ALL AMERICAN REPUBLIC DIPLOMATIC POSTS IMMEDIATE

USCINCSO QUARRY HEIGHTS CZ

UNCLAS STATE 014372

LIMA:FOR AMBASSADOR MAILLIARD

E.O. 11652: N/A

TAGS: OAS, PFOR, TRA

SUBJECT: US STATEMENT ON TRADE ACT IN OAS PERMANENT COUNCIL

THE FOLLOWING IS THE STATEMENT MADE BY JOHN W. FORD, ACTING  
U.S. REPRESENTATIVE, AT THE SPECIAL SESSION OF THE OAS  
PERMANENT COUNCIL JANUARY 21:

QTE MR. CHAIRMAN: NOW THAT ALL DELEGATIONS HAVE HAD THE  
OPPORTUNITY TO STATE THEIR POSITIONS ON THE TRADE REFORM  
ACT OF 1974, WE THINK IT WILL BE USEFUL TO ATTEMPT TO  
CLARIFY SOME APPARENT MISCONCEPTIONS AND QUESTIONABLE INTER-  
PRETATIONS. WE THINK THESE CLARIFICATIONS WILL BE USEFUL  
FOR THE WORK OF THE COMMITTEE WHICH YOU SO WISELY SUGGESTED,  
MR. CHAIRMAN; WE THINK THE COMMITTEE SHOULD BE GIVEN ITS  
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MANDATE PROMPTLY AND SHOULD UNDERTAKE ITS WORK WITHOUT  
DELAY. CONSEQUENTLY, WE WILL TRY TO KEEP OUR REMARKS AS  
LIMITED AS POSSIBLE.

WE HAVE HEARD SOME INTERPRETATIONS OF THE TRADE ACT HERE, MR. CHAIRMAN, WHICH WE THINK ARE NOT WELL FOUNDED.

THE BRAZILIAN DELEGATE STATED YESTERDAY THAT THE TRADE ACT DID NOT CONTAIN SPECIAL MEASURES FOR THE DEVELOPING COUNTRIES. THE TRADE ACT OF 1974 PROVIDES THE U.S. WITH AUTHORITY TO ENTER INTO THE CURRENT ROUND OF MULTILATERAL TRADE NEGOTIATIONS BEGUN BY THE DECLARATION OF MINISTERS

IN TOKYO IN SEPTEMBER 1973. THIS DECLARATION PROVIDED, INTER ALIA, THAT AN AIM OF THE TRADE NEGOTIATIONS IS TO SECURE ADDITIONAL BENEFITS FOR THE INTERNATIONAL TRADE OF DEVELOPING COUNTRIES, INCLUDING A SUBSTANTIAL IMPROVEMENT IN THE CONDITIONS OF ACCESS FOR THE PRODUCTS OF INTEREST TO THE DEVELOPING COUNTRIES. IN THIS DECLARATION THE MINISTERS ALSO RECOGNIZED THE IMPORTANCE OF THE APPLICATION OF DIFFERENTIAL MEASURES TO DEVELOPING COUNTRIES IN WAYS WHICH WILL PROVIDE SPECIAL AND MORE FAVORABLE TREATMENT FOR THEM IN AREAS OF THE NEGOTIATION WHERE THIS IS FEASIBLE AND APPROPRIATE. THERE ARE MANY WAYS SPECIAL TREATMENT COULD BE APPLIED WHERE APPROPRIATE. DURING THE MANY MEETINGS OF THE WORKING GROUPS, THE UNITED STATES HAS SAID IT WILL CONSIDER ALL IDEAS PUT FORWARD. WE REMAIN COMMITTED TO THE PRINCIPLES SET FORTH IN THE TOKYO DECLARATION. THE TRADE ACT OF 1974 WILL PERMIT US TO FULFILL THIS COMMITMENT.

AT THE RISK OF POINTING OUT THE OBVIOUS, THE U.S. CONSIDERS THAT ITS GSP AUTHORITY IS CONCRETE EVIDENCE OF THE SPECIAL TREATMENT WHICH THE TRADE ACT PROVIDES TO LDC'S.

THE U.S. DELEGATION WOULD LIKE TO STATE CLEARLY, POSITIVELY AND AFFIRMATIVELY THAT THE TRADE ACT WILL BE BENEFICIAL TO THE GOAL OF THE INCREASED LIBERALIZATION OF WORLD TRADE. AS STATED IN SECTION 103, THE OVERALL NEGOTIATING OBJECTIVE OF THE U.S. IS QTE ... TO OBTAIN MORE OPEN AND EQUITABLE MARKET ACCESS AND THE HARMONIZATION, REDUCTION UNCLASSIFIED

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OR ELIMINATION OF THE DEVICES WHICH DISTORT TRADE OR COMMERCE. UNQTE IT IS THIS OBJECTIVE OF THE LIBERALIZATION OF WORLD TRADE WHICH ALL COUNTRIES SHARE AND FROM WHICH ALL COUNTRIES WILL BENEFIT. THEREFORE, WITHIN THIS OVERALL CONTEXT, IT CAN BE UNEQUIVOCALLY STATED THAT THE U.S. TRADE ACT OF 1974 IS NOT ONLY IN THE INTERESTS OF THE U.S. AND THE LATIN AMERICAN COUNTRIES BUT IS IN THE INTEREST OF ALL COUNTRIES WHICH SHARE THE COMMON OBJECTIVE OF THE INCREASED LIBERALIZATION OF WORLD TRADE.

THIS LIBERALIZATION OF WORLD TRADE WILL TAKE PLACE ON SEVERAL LEVELS. WE WILL BE BEGINNING IN GENEVA THE ROUND OF TRADE NEGOTIATIONS SET OFF BY THE TOKYO DECLARATION.

THIS WILL LEAD TO THE EVENTUAL REDUCTION OF TARIFFS  
THROUGHOUT THE WORLD WHICH WILL INCREASE LATIN AMERICAN  
ACCESS TO MARKETS.

CONCERNING THE SYSTEM OF GENERALIZED PREFERENCES, THE  
TRADE ACT ALSO AUTHORIZES THE U.S. TO IMPLEMENT A SYSTEM  
OF GENERALIZED PREFERENCES FOR DEVELOPING COUNTRIES. THESE  
PREFERENCES ARE EXPECTED TO INCLUDE A WIDE VARIETY OF

PRODUCTS. ALREADY NEARLY 60 PERCENT OF LATIN AMERICA'S  
EXPORTS ENTER THE U.S. MARKET WITHOUT PAYING ANY TARIFFS.  
OF THE REMAINING 40 PERCENT WE PRESENTLY ESTIMATE THAT  
OVER 30 PERCENT WILL BE ELIGIBLE FOR DUTY-FREE TREATMENT  
UNDER GSP. IN ACTUAL NUMBERS, AND BASED ON 1972 FIGURES,  
THIS MEANS THAT OVER THREE-QUARTERS OF A BILLION DOLLARS  
IN ADDITIONAL LATIN AMERICAN EXPORTS WILL ENTER THE U.S.  
DUTY FREE. THE BENEFITS OF OUR SYSTEM OF GSP WILL VARY  
FROM COUNTRY TO COUNTRY DEPENDING ON THE PRODUCTS THAT  
COUNTRY EXPORTS TO THE U.S. WE CAN AGREE WITH THE STATE-  
MENT OF THE DELEGATE FROM VENEZUELA THAT VENEZUELA AND  
ECUADOR WOULD RECEIVE LIMITED BENEFITS FROM GSP. THIS IS  
TRUE BECAUSE NEARLY ALL OF THE EXPORTS OF THESE TWO  
COUNTRIES ALREADY ENTER THE U.S. FREE OF DUTIES AND HENCE  
THE AMOUNT OF PRODUCTS WHICH PRESENTLY DUTIABLE IS CON-  
SIDERABLY REDUCED.

IN THE CASE OF VENEZUELA, FOR EXAMPLE, AND BASED ON 1972  
TRADE FIGURES, ONLY SOMETHING LIKE \$15 MILLION IN PRE-  
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SENTLY DUTIABLE EXPORTS WOULD BE INCLUDED UNDER GSP. FOR  
OTHER COUNTRIES, HOWEVER, THE SITUATION IS DIFFERENT.  
MEXICO AND BRAZIL, FOR EXAMPLE, BOTH WILL FIND THEIR  
PRESENTLY DUTIABLE EXPORTS TO THE U.S. CHANGED TO DUTY-  
FREE IMPORTS WHICH WILL TOTAL SEVERAL HUNDREDS OF MILLIONS  
OF DOLLARS. OTHER LATIN AMERICAN COUNTRIES WILL SIMILARLY  
BENEFIT AS WILL BE DETERMINED BY THE STRUCTURE OF THEIR  
EXPORTS.

HOWEVER, IT SHOULD BE NOTED THAT OUR ANALYSIS OF THE  
POTENTIAL BENEFITS OF GSP FOR VARIOUS COUNTRIES IS PRE-  
LIMINARY AND BASED ON HISTORIC TRADE DATA. GIVEN THE  
DYNAMIC NATURE OF OUR GSP, WHICH WILL ENCOURAGE DEVELOPING  
COUNTRIES TO ENTER NEW AREAS OF EXPORT ACTIVITY, ANY  
ANALYSIS BASED ON HISTORY IS BY DEFINITION INACCURATE.

WE WOULD LIKE TO FURTHER CLARIFY SEVERAL SECTIONS OF GSP  
THAT HAVE BEEN MENTIONED: SECTIONS 502(A) (3) AND 503(B)  
(2) PROVIDE THAT THE PRESIDENT MAY DESIGNATE MEMBERS OF A  
CUSTOMS UNION OR FREE TRADE AREA AS ONE COUNTRY FOR PUR-  
POSES OF THE GSP. THESE SECTIONS INCREASE THE VALUE-  
ADDED REQUIREMENT FOR MEMBERS OF A FREE TRADE AREA OR CUS-

TOMS UNION TO 50 AS COMPARED TO 35 FOR INDIVIDUAL COUNTRIES.

THE U.S. POSITION IS AS FOLLOWS: DESIGNATION OF COUNTRIES AS A FREE TRADE AREA OR CUSTOMS UNION FOR PURPOSES OF GSP ; IS, IN THE FIRST INSTANCE, UP TO THE INITIATIVE OF THE CONCERNED COUNTRIES. IF THEY DECIDE THAT IT WOULD SERVE THEIR INTERESTS TO BE DESIGNATED AS A COMMON GROUPING, THEY

COULD SO REQUEST. THE U.S. GOVERNMENT DOES NOT INTEND TO DESIGNATE COUNTRIES AS MEMBERS OF AN ECONOMIC GROUPING, UNLESS THERE IS A REQUEST TO ON BEHALF OF THE COUNTRIES OF SUCH A GROUP TO BE SO DESIGNATED.

SECTION 504(C) PROVIDES A COMPETITIVE NEED FORMULA LIMITING TO \$25 MILLION OR 50 THE AMOUNT THAT ANY ONE PRODUCT FROM ANY ONE COUNTRY CAN BENEFIT FROM GSP.

THE U.S. POSITION IS AS FOLLOWS: THE INTENT OF THIS PRO-UNCLASSIFIED

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VISION IS TO PERMIT ALL DEVELOPING COUNTRIES TO RECEIVE THE ECONOMIC ADVANTAGE IMPLICIT IN PREFERENTIAL TARIFF TREATMENT. TO FACILITATE ACCESS TO PREFERENCES BY ALL BENEFICIARIES, THE CONCEPT OF COMPETITIVE NEED IS EMPLOYED. THE COMPETITIVE NEED FORMULA REQUIRES THE PRESIDENT TO WITHDRAW PREFERENCES ON AN ARTICLE FROM A PARTICULAR BENEFICIARY COUNTRY WHEN THAT COUNTRY BECOMES COMPETITIVE IN A PRODUCT. A COUNTRY IS PRESUMED TO HAVE BECOME COMPETITIVE WHEN IT SUPPLIES MORE THAN A SPECIFIC DOLLAR AMOUNT (INITIALLY SET AT \$25 MILLION) OF AN ARTICLE IN ANY CALENDAR YEAR, OR ACCOUNTS FOR MORE THAN 50 OF THE TOTAL VALUE OF IMPORTS OF THAT ARTICLE FROM ALL COUNTRIES IN ANY CALENDER YEAR.

THE CONCERNS WHICH MOTIVATED THE COMPETITIVE NEED FORMULA SEEM TO HAVE BEEN JUSTIFIED BY THE EXPERIENCE OF OTHER PREFERENCE -- GIVING COUNTRIES. MOST OF THE BENEFITS OF GSP ARE ACCRUING TO A HANDFUL OF THE MORE INDUSTRIALLY ADVANCED DEVELOPING COUNTRIES. THE OBJECTIVE OF THE COMPETITIVE NEED FORMULA IS TO PROVIDE A TARIFF ADVANTAGE TO INDUSTRIES WHICH ARE IN THE PROCESS OF BEING DEVELOPED OR ARE AT THE INFANT STAGE WHETHER THEY BE IN THE MORE INDUSTRIALLY ADVANCED DEVELOPING COUNTRIES OR IN THE LEAST DEVELOPED. SUCH AN ADVANTAGE SHOULD NOT BE NECESSARY FOR WELL ESTABLISHED AND COMPETITIVE INDUSTRIES. UNLIKE THE TARIFF QUOTA APPROACH OF THE EUROPEAN COMMUNITY AND JAPAN, THE COMPETITIVE NEED FORMULA DOES NOT PENALIZE OTHERS FOR THE SUCCESS OF ONE COUNTRY. WHEN PREFERENCES ON A SPECIFIC PRODUCT FROM A PARTICULAR COUNTRY ARE REMOVED, IMPORTS FROM THAT COUNTRY WILL CONTINUE TO FLOW AT NORMAL DUTY RATES.

THE CORE OF THE COMPETITIVE NEED CONCEPT IS ITS DYNAMIC ELEMENT. BY CONSTANTLY OPENING THE POTENTIAL PREFERENTIAL MARKET FOR INDUSTRIES MOVING INTO A NEW AREA OF PRODUCTION, WE PROVIDE AN IMPORTANT INCENTIVE TO DEVELOPMENT WHICH IS THE OBJECTIVE OF GSP. WE BELIEVE OUR SYSTEM IS A LIBERAL ONE WHICH WILL ACCOMPLISH THE OBJECTIVE OF EXPANDING THE EXPORT EARNINGS OF DEVELOPING COUNTRIES.

THE LEGISLATION REFLECTS IN A MODEST WAY THE FREQUENT  
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DIALOGUE BETWEEN THE ADMINISTRATION AND THE LATIN AMERICAN COUNTRIES IN THE OAS AND ELSEWHERE. ONE EXAMPLE OF A MODIFICATION DESIGNED TO MEET A PARTICULAR LATIN AMERICAN CONCERN IS THE FLEXIBILITY NOW BUILT INTO THE COMPETITIVE NEED CEILINGS. THE U.S. WILL CONTINUE TO QTE WORK WITH THE OTHER COUNTRIES OF THE HEMISPHERE TO APPLY THESE PREFERENCES IN THE MOST BENEFICIAL MANNER. UNQTE.';

WE HAVE MADE THESE CLARIFICATIONS, MR. CHAIRMAN, NOT ONLY TO SET THE RECORD STRAIGHT IN CERTAIN IMPORTANT RESPECTS, BUT ALSO TO ILLUSTRATE THE DIFFICULTIES WHICH THIS COUNCIL FACES IN TRYING AT THIS TIME TO ARRIVE AT A BALANCED ANALYSIS AND ASSESSMENT OF WHAT THE TRADE ACT REALLY DOES. AND THIS RAISES THE QUESTION OF WHAT WE ARE TRYING TO ACHIEVE IN THIS MEETING AND THE CORROLARY QUESTION OF HOW BEST TO ACHIEVE IT. MY DELEGATION HAS ALREADY SUGGESTED THAT A DETAILED ANALYSIS AT THE TECHNICAL LEVEL IS IN ORDER. HOWEVER, WE HAVE NOT PROPOSED, AND DO NOT EELIEVE THAT SUCH A TECHNICAL ANALYSIS CAN BE UNDERTAKEN HERE. WE WOULD PROPOSE SEVERAL WAYS IN WHICH IT MIGHT BE DONE. CONVOING A MEETING OF THE SPECIAL COMMITTEE ON CONSULTATION AND NEGOTIATION (SCCN) TO WHICH ALL GOVERNMENTS COULD SEND THEIR MOST KNOWLEDGEABLE EXPERTS ON TRADE MATTERS IS ONE. A SECOND ALTERNATIVE WOULD BE TO ASK THE SECRETARIAT TO RECEIVE AND COMPILE THE QUESTIONS AND PROBLEMS FROM EACH OF THE GOVERNMENTS ALONG WITH U.S. RESPONSES THERETO INTO A DOCUMENT WHICH COULD FORM THE BASIS OF A TECHNICAL STUDY BY A SPECIALLY DESIGNATED TECHNICAL GROUP.

THERE APPEARS TO BE MAJORITY SUPPORT FOR PUTTING THE TRADE ACT ON THE AGENDA OF THE GENERAL ASSEMBLY. THE KIND OF TECHNICAL STUDY WE PROPOSE COULD SERVE AS A WORKING DOCUMENT FOR THE GENERAL ASSEMBLY'S DISCUSSION OF THE PROBLEM.

WE HAVE SAID REPEATEDLY THAT THERE ARE SOME ASPECTS OF THE TRADE ACT WHICH THE EXECUTIVE BRANCH CONSIDERS UNWISE. WE ARE WILLING TO EXAMINE THESE WITH OTHER GOVERNMENTS REPRESENTED HERE. WE BELIEVE THAT IF THE OTHER GOVERN-

MENTS ARE WILLING TO WORK WITH US, THEY CAN CONTRIBUTE  
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TO THE ATTAINMENT OF THE OBJECTIVES WHICH WE ARE SEEKING.  
WE THINK THAT IN THESE TERMS THIS COUNCIL CAN MAKE A USE-  
FUL CONTRIBUTION.

WE THINK IT WOULD BE MOST UNFORTUNATE IF THE COUNCIL WERE  
TO APPEAR TO BE MAKING UNREASONABLE DEMANDS ON MY GOVERN-  
MENT. I AM HAPPY TO SAY, MR. CHAIRMAN, THAT I DO NOT

DETECT AMONG THE MAJORITY OF DELEGATES AN INCLINATION TO  
SEEK MORE THAN WHAT CAN REALISTICALLY BE ACHIEVED.

I REPEAT, MR. CHAIRMAN, THAT MY DELEGATION AND MY GOVERN-  
MENT ARE DISPOSED TO EXAMINE ALL THESE ISSUES.

NOTE: QTE COMMITTEE UNQTE MENTIONED IN PARA ONE IS A WORK-  
ING GROUP, NOW MEETING BEHIND CLOSED DOOR TO DRAFT RESOLU-  
TION FOR PROBABLE CONSIDERATION TOMORROW. KISSINGER

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